

Andrea Gáspár

Szent István University Gödöllő, Hungary

*CHANGES OF TAXATION PROCEDURES IN HUNGARIAN AGRICULTURE
IN THE YEARS 2000-2007*

**ZMIANY PROCEDUR PODATKOWYCH W ROLNICTWIE
WĘGIERSKIM W LATACH 2000-2007**

Key words: evolution of rural producers' taxes, contributions, charges and incomes

Słowa kluczowe: zmiany podatków dla producentów rolnych, składki, opłaty i dochody

Abstract. One of the most important sources of permanent income meant to cover public spending is the tax, which is demanded by the government without any direct compensation. In Hungary, as compared to the total number of the inhabitants there is a significant proportion of the population who is involved in agricultural production, although for most of them it is only an additional source of income. My presentation is focusing on different aspects of the role of rural producers in a more equitable tax burden distribution. In today's Hungarian agriculture there are two basic forms of husbandry: individual (as a family business) and joint farming. In my analysis I only addressed the tax burdens related to the individual agricultural model. I examined the effects of the changes of the Hungarian tax system on individual farmers and primary producers. I have also drawn some conclusions regarding the consequences of recent changes on the farmers' income-producing ability for the next few years.

Material and methods

The paper aims assess the farmers' income-producing ability and tax liability in the light of the changes in the law and the figures for the years 2000-2007. The data are taken from the database of KSH (Hungarian Central Statistical Office) and APEH (Hungarian Tax and Financial Control Administration), they are cumulative and individually non-identifiable. They also comprise the changes in the legislation on individual income tax and social security.

Results and discussion

Ways of entrepreneurship in Hungarian agriculture

In terms of the forms of management, Hungarian agriculture can be considered the most colourful sector in the Hungarian national economy. Its structure is also different from the system used in the majority of the member states of the European Union. We can find almost all business forms represented here. In Hungary agricultural activity can be practised individually or as a company. In my analysis I only examined private individuals. Private persons can do agribusiness activity in the following ways as:

- primary producers
- small-scale producers
- self-employed entrepreneurs

According to the Farm Structure Survey of 2007, in that year approximately 7400 economic organizations were involved in agricultural activities, which is 6% less than in 2005. The number of individual agribusinesses also decreased as compared to 2005 (by 12,5%) [FVM 2008]. In 2007 the number of individual farms was approximately 619,000 [Laczka 2007]. 47% of the individual farms were exclusively specialized in crop farming, slightly more than one-fifth bred animals livestock, while another 32% were involved in both.

By 2000 the number of companies classified as „agricultural” had increased by 30% as compared to middle of the 90s, with the number of individual agribusinesses growing by 26%.

The evolution of the number of the entrepreneurship was significantly influenced by the changes in the rules and regulations. In 2008, the amendment of the VAT-law made it compulsory for all primary producers to obtain a tax number, the effects of which were already clearly shown by

Table 1. The establishment of the agricultural producers' number

Name	Years	
	2005	2007
Agricultural producers' number	1.448.962	1.317.855
From this individual smallholder	706.900	619.000
From which one entrepreneur	20.349	68.947
From which one family smallholder	686.551	550.053

Source: own editing, KSH based on data.

proportion of entrepreneurship operating as individual businesses accounted for 73.54% of the total amount of enterprises (individual businesses and partnerships), while in 2007 their rate reached 83.26%. The reason for their growth is that less capital and private resources are needed to start an individual business and the entrepreneurial certificate can be obtained more easily than in the case of partnerships.

Both primary producers and self-employed farmers do their activities as private individuals. The difference between the two is specified by 3§ of the Personal Income Tax (SZJA) law where one can find the exact definition of the two categories [Herich 2007, Tax laws 2000-2007].

The long-term development and operability of agricultural partnerships, co-operatives and individual farmers is determined by the share of the profit they can keep and invest in further improvement [Takács-Takácsné 1999]. Another determining factor is dividend-policy, that is, the dividend paid to the owners and the amount that they can re-invest in capacity extension and development. All these factors have a significant effect on the general conditions of agricultural establishments and they also determine capital efficiency. As compared to other establishments in the European Union Hungarian plants work with low technical efficiency [Takács 2003]. See category 3 for details.

Primary agricultural producers

Primary agricultural producers are non-entrepreneur private individuals over 16 years of age, who carry on the production of particular agricultural produces on their own farm and hold a registered licence for the activity (SZJA law).

If the primary agricultural producer does not opt for flat taxation, he can choose between two different methods of cost-accounting to determine his income:

1. After deducting a presumptive cost ratio of 10%, 90% of the revenue is considered his income.
2. Itemised cost accounting, in which case his income is determined from his revenue by considering all the legally recognized and certified incurred expenses.

In 2006 the number of primary agricultural producers reaching an annual sales turnover between 600,000 and 6 million forints was approximately 770,000.

Primary agricultural producers, if their annual revenue from the agribusiness activity does not exceed the tax exemption limit set by the SZJA law (that is, 250,000 HUF in 2000-2002, 400,000 HUF in 2003, respectively 600,000 HUF in 2004-2007) do not have to take into account their income, but if it exceeds this sum, they have to count in the above-mentioned sum when they determine their income. Primary producers calculate their income according to the laws concerning the determination of income from independent activity. According to the Hungarian tax law, this income is part of the total taxable amount, more specifically it falls under category „Income from independent activity”. As such, it is taxed according to the progressive tax chart. The percentage of the tax, as well as the relevant income categories are constantly changing, which I have presented in detail in Table 2.

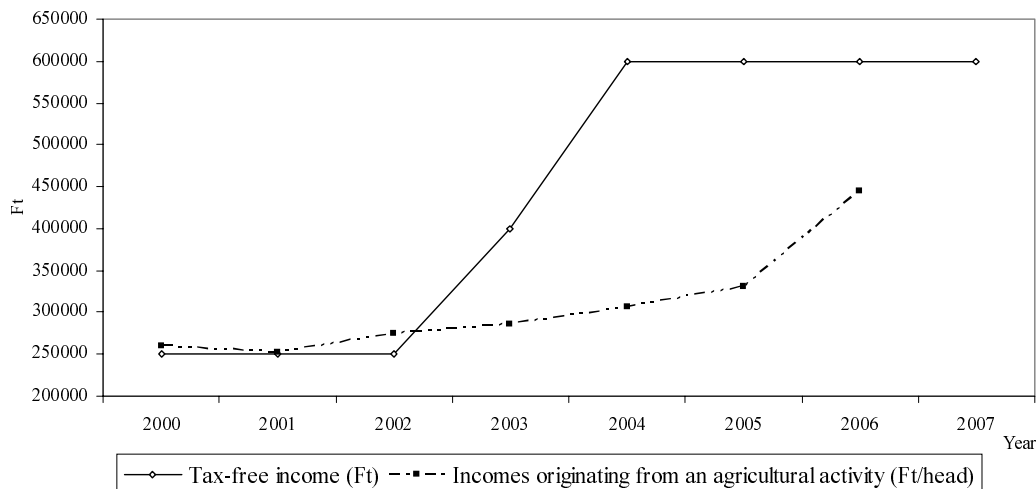
Chart 1 shows the figures for the maximum exempt income and the taxable income declared by primary producers in 2003. Although the tax exemption limit was raised by 160% by the law, per capita tax-free income resulting from agribusiness activities was rising very slowly. However, in 2006 we can notice another significant increase (34.85%). For cost accounting primary producers can choose between itemized cost-accounting and the application of the presumptive cost ratio of 10%. In 2000, first-timer primary producers who opted for itemised cost accounting were allowed to deduct the losses they had in the first year and in the following 2 years without any time limit. In 2001-2002 this was extended to 3 years, thus reducing the producers' profits.

the growing number of individual entrepreneurs at the end of 2007. As for the number of individual entrepreneurship, there was a growth until the year 2005 which was followed by a decrease in 2006, then, by the end of 2007 their number suddenly rose again. (Table 1) [KSH...2008]. According to the data of KSH, in 2000 there were 37.912 people involved in individual agribusiness activities, but in 2007 their number reached 68.947. In 2000, the

Table 2. The establishment of the measure of a personal income tax 2000-2007

2000	0-400.000 Ft	20%
	400.001-1.000.000 Ft	80.000 Ft and in addition to the 400.000 Ft 30% of a part
	From a 1.000.001 Ft	260.000 Ft and in addition to the 1.000.000 Ft 40 % of a part
2001	0-480.000 Ft	20%
	480.001-1.050.000 Ft	96.000 Ft and in addition to the 480.000 Ft 30% of a part
	From a 1.050.001 Ft	267.000 Ft and in addition to the 1.050.000 Ft 40% of a part
2002	0-600.000 Ft	20%
	600.001-1.200.000 Ft	120.000 Ft and in addition to the 600.000 Ft 30% of a part
	From a 1.200.001 Ft	300.000 Ft and in addition to the 1.200.000 Ft 40% of a part
2003	0-650.000 Ft	20%
	650.001-1.350.000 Ft	130.000 Ft and in addition to the 650.000 Ft 30% of a part
	From a 1.350.001 Ft	340.000 Ft and in addition to the 1.350.000 Ft 40% of a part
2004	0-800.000 Ft	18%
	800.001-1.500.000 Ft	144.000 Ft and in addition to the 800.000 Ft 26% of a part
	From a 1.500.001 Ft	326.000 Ft and in addition to the 1.500.000 Ft 38% of a part
2005	0-1.500.000 Ft	18%
	From a 1.500.001 Ft	270.000 Ft and in addition to the 1.500.000 Ft 38% of a part
2006	0-1.550.000 Ft	18%
	From a 1.550.001 Ft	279.000 Ft and in addition to the 1.550.000 Ft 36% of a part
2007	0-1.700.000 Ft	18%
	From a 1.700.001 Ft	306.000 Ft and in addition to the 1.700.000 Ft 36% of a part

Source: own editing, SZJA law.

**Figure 1. The establishment of tax-free incomes being subject to income and the fusion**

Source: own editing based on data TB 2000-2007.

In 2007 primary producers were not allowed to opt for tax declaration by public authority if they completed a simplified tax declaration form. Starting with 2004, primary producers can only use this tax declaration method if they meet the strict requirements established by the SZJA law.

Primary producers using itemized cost-accounting or the 10% cost ratio can reduce the tax deductible from their total taxable income with the sum of the tax on their annual income resulting from the agribusiness activity and the book-keeping allowance (if they choose itemized cost-accounting), but amount of this tax benefit cannot exceed 100.000 HUF (primary producers' tax allowance).

Tax exemption for primary producers cannot be granted if their declared or officially calculated total annual income reaches or exceeds 6.500.000 HUF. According to Law LXXX of 1997 (shortly TBJ) starting with 1 January 2007 primary agricultural producers are also socially insured.

Taking for a basis the minimal wages valid on the first day of the month preceding the reference month, primary producers are obliged to pay a social national insurance contribution of 29%, a medicare contribution of 7% and a pension contribution (pension fund fee) of 8.5%.

An important change introduced in 2008 is that all forms of agricultural sales or services have to be certified by a document required by the law, consequently earnings smaller than 500,000 HUF are not exempted from documentation any more. Producers have to make out a receipt, respectively an invoice for all kinds of business transactions, even when they sell their products to private individuals (for example at the market or when selling from home). This method can decrease the amount of goods sold without documentation and can reduce the income from black marketing.

Small-scale agricultural producers

There is one more category of primary agricultural producers which is related to the amount of income made from agricultural activities. Small-scale agricultural producers are primary agricultural producers whose income from agribusiness activity for the given tax year does not exceed 7 million HUF (2005-2007), 6 million HUF (2003-2004), 4 million HUF (2000-2002) [SZJA law] Theoretically, the taxation system for earnings from agricultural activity does not depend on income size. However, the taxation of small-scale agricultural producers is an exception to this, as in their case the tax base and the way of calculating the applicable tax is determined by the size of their income. Agricultural small-scale producers may choose between flat taxation and itemised cost accounting.

The annual income of agricultural small-scale producers opting for itemized cost accounting cannot exceed: 4 million HUF in 2000-2002, 6 million HUF in 2003-2004, 7 million Ft in 2005-2007. Besides their certified expenses they can also deduct 40% of their revenues from their taxable income as small-scale producer allowance without having to attest it. The upper limit of this amount was 1.200.000 HUF in 2000 and 2001, but in the following years included in my research there was no upper limit established.

In 2000, instead of the usual tax return form, agricultural small-scale producers choosing itemized cost-accounting had the right to complete a simplified tax declaration form. The condition of this simplified tax declaration was that the primary producer can document at least 20% of his income by providing invoice(s) issued in his name for expenses related to his activity profile and he acknowledges this fact in a statement.

Self-employed agriculturists

Self-employed agriculturists are private individuals possessing an entrepreneurial certificate indicating their entrepreneurial agribusiness activity (SZJA Law).

By 01 January 2008 the number of registered companies had grown by 50.000. This considerable growth was caused by a significant increase in the number of registered individual companies in December 2007. The reason for this is that according to the VAT law, taxable transactions can only be performed by taxable persons possessing a tax number. Because of the changes of this law, starting with 2008 primary producers have been obliged to obtain a tax number, consequently the number of companies rose by 4.2% in one year.

At the end of the second term of 2007 there were 702.500 registered individual companies, and in just one year their number increased by 4.8% or 32.000, because of the introduction of the obligatory tax number. 60.6% of all registered self-employed entrepreneurs possessed an entrepreneurial certificate and according to the data of KSH their number decreased by 2% (8.500) as compared to December 2006. Self-employed agriculturists can choose between cost accounting and flat taxation.

According to the regulations of individual income tax law the tax applicable to individual businesses is 18% of the positive tax base.

A self-employed agriculturist can opt for flat taxation, if he meets the requirements stated by the law, which are the following: he/she is not employed and his/her annual income does not exceed: 4 million HUF in 2000-2004, 8 million HUF in 2005-2007. In this case they do not have to collect any bills of expenses, they can deduct a certain amount from their total income and the tax will be a certain percentage of the rest.

The taxation system for self-employed agriculturists opting for flat taxation is not size-neutral. Individual agriculturists also pay a contribution, the amount of which changes from year to year.

Table 3. The establishment of contribution measures [%]

Year	Social security tax to be paid by employing one			Ensured owing				
	retirement insurance contribution	health insurance contribution		pension contribution		mpt. membership fee	health insurance contribution	
		in kind	financial	mpt. member	not mpt. Member		in kind	financial
2007.	21	5	3	0.5	8.5	8	4	3
2006. IX.-XII.	18	7	4	0.5	8.5	8	4	2
2006. VIII.	18	11		0.5	8.5	8	4	
2005	18	11		0.5	8.5	8	4	
2004	18	11		0.5	8.5	8	4	
2003	18	11		1.5	8.5	7	3	
2002	18	11		2.0	8.0	6	3	
2001	20	11		2.0	8.0	6	3	
2000	22	11		2.0	8.0	6	3	

Source: HVG TB; and www.afeh.hu.

Table 4. The minimum wage they developed according to the successors in the examined years

I am given in a Ft								
Name/Year	2000	2001	2002	2003	2004	2005	2006	2007
Minimum wage	25.500	40.000	50.000	50.000	53.000	57.000	62.500	65.500

Source: own study.

Individual agriculturists' personal income- and dividend withholding tax accounted for 0.3% of budgetary receipts as compared to the revenues counting in the tax base. According to an analysis, the tax paid by small-scale producers choosing presumptive taxation is on average 1.9% of their sales revenue if they earn between 250.000 and 1.5 million HUF, while for revenues exceeding 5.5 million HUF the tax is 5.3%. Self-employed agriculturists pay an entrepreneurial personal income tax on their entrepreneurial tax base and a tax prescribed by the law on their entrepreneurial dividend base (on certain conditions, they can choose flat taxation as well).

Summary

If we compare the above-mentioned producer groups and the tax burdens of the different taxation methods, we can conclude the following:

The taxation system used for agricultural activities partially meets the requirement of being neutral on each sector and agribusiness activity. Of all the optional tax models, entrepreneurial flat taxation is the least favourable for agriculturists. Flat taxation for small-scale agricultural producers is slightly better, as in this case the presumptive tax base is very close to the tax base calculated with itemized accounting. However, we cannot say that this system provides considerable advantages for agriculturists as compared to itemized accounting. As for the administrative costs, itemized accounting lays a bigger burden on farmers than flat taxation.

Starting with 01 January 2008 primary producers have to obtain a tax number as well, thus they are considered private entrepreneurs, which results in bigger administrative and tax burdens for them. As private entrepreneurs, they have liabilities to declare, to register and keep a record of their activities and what is more, they also have to pay an annual industrial tax on their income from their activity to the local government. The amount of this tax is different in every county (1-2%).

Following the period under review, primary agricultural producers' tax burdens have significantly increased, as a result of their obligation to pay social security contributions, respectively to declare and keep a record of their activities if they are classified as private entrepreneurs. In 2009 the upper limit of their non-taxable income is still 600.000.

Conclusion

In Hungary all income from individual agricultural activity is taxed in compliance with the Personal Income Law (SZJA). Unfortunately, the Hungarian tax system cannot be considered stable and consistent, and it is not predictable either, as tax rules and regulations are modified even in the course of the tax year. These changes are mainly related to the tax affecting the majority of the population: the personal income tax, which taxes primary agricultural producers, small-scale producers and individual agriculturists as well. In addition to the difficulties caused by the changeable weather conditions, these successive changes make it impossible for farmers to plan in advance. As I mentioned earlier, primary producers have become private entrepreneurs, which has led to increased tax burdens and administrative liabilities. In my opinion, as a result of the constant changes of the law a lot of agriculturists will soon stop agricultural production which they are already doing only under the pressure of necessity. Or, what is even worse (from a budgetary point of view) they might go on doing their activity illegally, without registration. We should seriously consider introducing a simpler, but more stable tax system in Hungary (which would not allow a tax-free income, would only apply itemized cost accounting and would offer only one or two tax benefits). It would be more effective in terms of tax payment, declaration, collecting and verifiability than the present one, which is slightly difficult to interpret. In my opinion this simplification could make tax-payers adopt a law-abiding behaviour.

Bibliography

- FVM Kiadványa Tájékoztató a mezőgazdasági östermelők adó-és járulékfizetési, valamint bevallási kötelezettségéről 2005-2007 Letöltés helye [www.fvm.hu].
- Herich G.** 2007: Adótan. Penta Unió, Budapest. 109 p.
- KSH Publication. 2008: Regional differences in the state of agriculture. Szeged
- KSH. 2007: The Agriculture of Hungary, Gazdaságtipológia. Budapest.
- Laczkó É.** (szerkesztő) 2007: KSH Magyarország mezőgazdasága, Gazdaságtipológia 2007. Budapest
- Personal Income Tax Law 2000-2007 (Szja törvény 2000-2007. évekre.).
- Takács I., Takácsné-György K.** 1999: Mezőgazdasági kis- és közepes vállalkozások működésének finanszírozási kérdései. Gazdálkodás XLIII. 2. 10-19. pp.
- Takács I.** 2003: A few aspects of capital-effectiveness of agricultural assets. Studies in Agricultural Economics. No. 99. 85-98. pp.
- TB törvény 2000-2007: évekre.

Streszczenie

W pracy dokonano analizy zmian opodatkowania agrolnictwa na Węgrzech w latach 2000-2007. Do analizy wybrano tylko indywidualne gospodarstwa rolne. Przedstawiono wpływ analizowanych zmian na efektywność gospodarstw i ich zdolność do rozwoju w kolejnych latach.

Corresponding address:

dr Andrea Gáspár
Szent István University, Hungary
Páter K. u. 1.
H-2103 Gödöllő
e-mail: ph.d.gaspar.andrea@gmail.com